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INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY  
RUEHAK/AMEMBASSY ANKARA PRIORITY 0302  
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RHEBAAA/USDOE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001216

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TAGS: [ECON](#) [EPET](#) [ENRG](#) [EFIN](#) [KCOR](#) [PGOV](#) [PREL](#) [TU](#) [IZ](#)

SUBJECT: SOMO PLANS TO IMPROVE EXPORT EARNINGS

Classified By: Acting ECON Minister Counselor Harry O'Hara, for reasons  
1.4 (b) and (d).

¶1. (C) Summary: The newly-appointed Director General of the State Oil Marketing Organization (SOMO) requested USG assistance in upgrading platforms in Basrah to allow increased exports of heavy fuel oil (HFO). According to al-Amiry's calculations, Iraq would increase revenue from the sale of HFO that is currently being mixed in with crude oil exports, and would also receive higher prices (approximately \$2 million/day) for crude unadulterated by excess HFO. Al-Amiry complained that Bayji refinery is for all intents and purposes not under MoO control; instead, "terrorists" and criminal elements dictate how the refinery is run. End Summary.

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Ideas for Improving Exports  
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¶2. (SBU) Al-Amiry eagerly sought EmbOffs assistance to upgrade platform 12 at Khor al-Zubayr (KAZ) in an attempt to increase Iraq's exports of heavy fuel oil (HFO), an overly abundant by-product of Iraq's technology-deficient refineries. Al-Amiry said that SOMO has a large number of contracts to sell HFO; the problem is transporting it from the refineries to Iraq's borders. Basrah produces some 2,000 tons of unused HFO/day and Bayji another 11,000 tons/day, over and above that which is utilized domestically for power generation and some, limited, exports. For lack of alternative means of disposal, Basrah currently mixes its excess HFO with Iraq's crude oil exports, thereby solving the immediate problem (disposing of the HFO), but lowering the value of crude exports by as much as \$2 million/day (the crude sale price is downgraded \$.40/Bbl per degree of API gravity lower). According to al-Amiry, Bayji refinery cannot move excess HFO by often-interdicted pipelines and can only truck no more than 100 tons/day, re-injects HFO into the Kirkuk oil fields or dumps it into a mountain area reservoir with negative environmental effects.

¶3. (C) Al-Amiry plans to refurbish platform 12, thereby allowing Basrah to export excess HFO and as much as an additional 2,000 tons over and above the HFO loaded from existing facilities at platform 11. At SOMO's current contract price of \$313/ton (FOB Khor al-Zubayr), this would bring in another \$19 million/month, as well as increasing the quality (and hence selling price) of Iraqi crude. Al-Amiry said that the Iraqi Tanker Company had already allocated the necessary \$150,000 to cover the initial set-up to make the platform functional, adding that he was prepared to authorize the additional \$1 million from SOMO's budget to complete a full refurbishment. He has been thwarted in these efforts, however, by what he called "criminal elements of the Basrah lobby," who he claims threatened him and blocked the project.

The Ministry of Transportation, who controls the port, also opposes the plan, al-Amiry said, but supplied no specific reasons.

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Problems at Bayji  
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¶4. (C) Calling Bayji his biggest problem, al-Amiry asserted that Bayji was under the influence of terrorist groups who run things "their own way." Contracts are useless, he continued, as MoO-sanctioned trucks are deliberately delayed in favor of those who pay bribes. He suggested stationing troops from other parts of Iraq at Bayji to bring the refinery and its environs under control.

¶5. (C) Al-Amiry said it was not cost effective to truck HFO from Bayji to Basrah for export. Bayji HFO is exported to Turkey in exchange for electricity imports at reduced rates; but the terms (the equivalent of \$27/ton) are disadvantageous to Iraq. Al-Amiry said that when he directed his staff to renegotiate the Turkish HFO-electricity countertrade, he was advised to leave the deal as is, given delicate relations with Turkey on fuel imports (septel). In light of security concerns on and the limited capacity of the railways, he was skeptical about moving HFO south by rail for export via Basrah, but agreed to consider the idea.

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Bio Note  
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¶6. (C) A fluent English speaker, al-Amiry received his PhD

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from Dundee University in the UK. His family still lives in the UK and he travels back and forth regularly. A part of the "returnee group" (those who returned to Iraq from abroad in 2003) at MoO, al-Amiry came to SOMO from his previous position as DG of the largely defunct (as it has no ships) Iraqi Tanker Company, after the ouster of former SOMO DG Dr. Musab al-Dujayli one month ago. We found al-Amiry to be organized, energetic and knowledgeable. Based on first impressions, we find his style of concrete ideas and active follow-through promising.  
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